



Office of the Legislative Auditor

State of Montana

Report to the Legislature

November 1994

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 1994

Montana School for the Deaf and Blind

This report contains eight recommendations for improvement in the school's operation. These recommendations address:

- ▶ Compliance with contracts, state laws, and federal regulations.
- ▶ Student employment.
- ▶ Student accounts.

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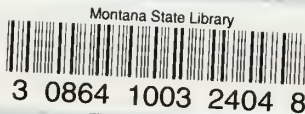
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SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

November 1994

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana School for the Deaf and Blind for the two fiscal years ending June 30, 1994. The school's written response to the audit recommendations is included in the back of the audit report.

We thank the superintendent and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long, sweeping horizontal line extending to the right.

Scott A. Seacat
Legislative Auditor



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Office of the Legislative Auditor

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1994

Montana School for the Deaf and Blind

Members of the audit staff involved in this audit were Brenda Bokovoy, Victoria Murphy, Vickie Rauser, and Patti Robertson.

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Elected, Appointed, and Administrative Officials

Board of Public Education

Marc Racicot, Governor*

Nancy Keenan, Superintendent of Public Instruction*

Dr. Jeff Baker, Commissioner of Higher Education*

		<u>Term Expires</u>
Wilbur Anderson, Chairperson	Dillon	1999
Sarah Listerud, Vice Chairperson	Wolf Point	1998
Anita A. Johnson	Lewistown	1995
Storrs Bishop	Ennis	1996
Ron Fernelius	Missoula	1997
Barbara Keim	Billings	2000
Joyce Silverthorne	Dixon	2001
Ryan Anderson, Student Representative	Miles City	1995

*ex officio members

Montana School for the Deaf and Blind

C. John Kinna, Superintendent

Bill Davis, Principal

Bill Sykes, Business Manager

Summary of Recommendations

The listing below serves as a means of summarizing the recommendations contained in the report, the school's response thereto, and a reference to the supporting comments.

<u>Recommendation #1</u>	We recommend the school:	
	A. Comply with contract requirements for the captioned film program or terminate the contract.	
	B. Request reimbursement for captioned film program expenditures to the fullest extent possible.	5
	<u>School Response:</u> Concur. See page B-3.	
<u>Recommendation #2</u>	We recommend the school enhance controls over meal counts to ensure completeness and accuracy of federal reports.	6
	<u>School Response:</u> Concur. See page B-3.	
<u>Recommendation #3</u>	We recommend the school calculate its federal indirect cost rate in accordance with federal regulations.	7
	<u>School Response:</u> Concur. See page B-4.	
<u>Recommendation #4</u>	We recommend the school:	
	A. Work with both the Montana and the United States Departments of Labor and Industry to develop policies regarding student employment.	
	B. Work with the Department of Administration, State Personnel Division, to ensure the school properly withholds taxes from student payroll.	8
	<u>School Response:</u> Concur. See page B-4.	
<u>Recommendation #5</u>	We recommend the school:	
	A. Implement a policy regarding abandoned student accounts which complies with state abandoned property laws.	

Summary of Recommendations

- B. Ensure procedures used for student accounts comply with state accounting policy. 10

School Response: Concur. See page B-4.

Recommendation #6

- We recommend the school use expenditure abatements in accordance with state accounting policy 11

School Response: Concur. See page B-4.

Recommendation #7

We recommend the school:

- A. Perform fixed asset inventories as required by state policy.
- B. Update the accounting records to accurately reflect fixed assets owned. 12

School Response: Concur. See page B-4.

Recommendation #8

- We recommend the school work with the Montana State Prison to determine the feasibility of the prison providing milk to the school. 13

School Response: Concur. See page B-5.

Introduction

Introduction

We performed a financial-compliance audit of the Montana School for the Deaf and Blind for fiscal years 1992-93 and 1993-94. The objectives of the audit were to:

1. Determine if the school complied with applicable state and federal laws and regulations.
2. Make recommendations for improvement in management and internal control of the school.
3. Determine if the school's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1994.
4. Determine the implementation status of prior audit recommendations.

This report has eight recommendations to the school. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing these recommendations.

Background

The Montana State School for the Deaf and Blind (school) was founded in 1893 as part of the Montana State Training School at Boulder. In 1937 the school was transferred to Great Falls and established as a separate and independent institution of the state of Montana. The school is under the general supervision, direction, and control of the Board of Public Education. Board members are appointed by the governor and confirmed by the Senate.

The purpose of the school is to educate children whose hearing or vision is impaired such that they cannot be properly taught in the public schools of the state. This determination is made by the resident school district or the court system. In addition, the school serves deaf and blind children throughout the state through its itinerant teacher program. This program included four regional resource consultants in fiscal year 1992-93 who traveled throughout the state to consult with parents and teachers of deaf and blind children. In fiscal year 1993-94 the itinerant teacher program became a "fee for service" program. This caused a significant drop in usage, and the school could support only one resource consultant. The following schedule shows the

Introduction

number of students served and full-time equivalent employees at the school during the audit period.

Table 1
School Students and Staff

	<u>Fiscal</u> <u>1992-93</u>	<u>Fiscal</u> <u>1993-94</u>
Hearing Impaired Children	76	73
Visually Impaired Children	20	20
Multihandicapped Children	7	6
Outreach/itinerant program	<u>196</u>	<u>29</u>
Total Students Served	<u>299</u>	<u>128</u>
Full-time Equivalent Staff	85.38	81.68
Age Groups of Students		
Served on Campus:		
0 - 4	7	8
5 - 11	42	35
12 - 13	17	15
14 - 18	37	41

Source: Prepared by the Office of the Legislative Auditor from school records

The school has three sources of funding: the general fund, land grant income and federal subgrants from the Office of Public Instruction.

The school works closely with the Montana School for the Deaf and Blind Foundation, Inc. The foundation has a contract with the Board of Public Education to hold and manage assets donated for the benefit of the school.

Prior Audit Recommendation

Prior Audit Recommendation

The previous audit of the school contained seven recommendations. The school implemented two, partially implemented one, and did not implement four.

The recommendation partially implemented relates to strengthening the school's internal controls over student accounts and is discussed on page 8 of this report. One recommendation not implemented relates to unrecorded revenue and expenditure activity and is discussed further on page 11.

The other three recommendations not implemented relate to compliance with state leave laws, gathering of employment data, and admittance to the school. In all three cases we recommended the school seek legislation to amend current law. The school plans to seek the recommended legislation during the 1995 Legislative Session. These issues are not discussed further in this report and will be subject to review during the next audit.

Findings and Recommendations

Federal Compliance

The school participates in several federal programs. Most of the money it receives is subgranted through the Office of Public Instruction (OPI). Federal assistance related to captioned films and books for the blind is subgranted from entities outside Montana. We identified the following areas where the school could improve controls to ensure compliance with federal regulations.

Captioned Films

The school has a federally sponsored contract (CFDA #84.026) with Modern Talking Picture Services, Inc. (Modern). The contract requires the school to circulate captioned films to schools throughout Montana upon request. In exchange, the school receives \$80 per month, \$2.44 per film mailed, and reimbursement for postage and supplies. The contract requires the school to promote the program, and increase the distribution of films each year. The contract further requires the school to submit monthly invoices identifying the number of films mailed and the detail of reimbursable expenditures incurred by the school.

We noted as of August 1994 the school had not submitted invoices to Modern for July and August 1992; July, August and October 1993; or January, February, March, May and June of 1994. We also noted the school did not request any reimbursements for items other than postage. They can request reimbursement for items such as photocopies and packaging supplies. Personnel stated that with the loss of two library aides, the amount of work the librarian must do has increased and she does not have time to work with the captioned films. They also stated the reimbursable items would be minimal.

Since the school does not track the costs of this operation, it cannot be sure the reimbursable expenditures are minimal. If the school intends to keep this contract, personnel should ensure the requirements of the contract are fulfilled. Another option for the school would be to no longer participate in this contract. The school and other schools throughout Montana would still be

Findings and Recommendations

able to request captioned films from depositories in other states, but there would be a longer film delivery time.

Recommendation #1

We recommend the school:

- A. Comply with contract requirements for the captioned film program or terminate the contract.**
- B. Request reimbursement for captioned film program expenditures to the fullest extent possible.**

School Foods

The school participates in the federal school breakfast (CFDA #10.553) and school lunch (CFDA #10.555) programs. The school tracks the number of meals served and reports monthly to OPI. OPI reimburses the school based on a set rate per meal served.

Federal regulations require schools to have accurate support for all reports submitted for meal reimbursements. We selected eight claims for reimbursement to determine if the reports were accurate. We noted tabulation errors in five of these reports.

By not having adequate controls in place to ensure meal counts are accurate, the school is not complying with federal regulations. In most of the instances we noted, the school had reported fewer meals than were actually served, thereby not collecting as much money as it could have. Under the current system personnel could as easily report more meals than those actually served which would result in over-reimbursement. It is important the school accurately report the number of meals served.

We identified problems with the meal counts in our previous audit as well. The school implemented procedures where one person totaled the counts and another person reviewed the

Findings and Recommendations

counts. The school could improve the accuracy of the counts by creating a daily meal form that is easier to prepare.

Recommendation #2

We recommend the school enhance controls over meal counts to ensure completeness and accuracy of federal reports.

Administrative Cost Recovery

Federal regulations allow state agencies to recover reimbursement for indirect costs necessary for the administration of federal grants. Recovery of indirect costs reduces the state money required to support federal programs. The school negotiates an indirect cost rate with the federal government each year to recover indirect costs.

Federal regulations do not allow the cost of the school superintendent's office to be included in the calculation of the indirect cost rate because these costs are general costs of the school. When the school calculated its indirect cost rate for fiscal year 1993-94, it incorrectly included the costs of the superintendent and his secretary in the calculation.

The school calculated an indirect cost rate of 18.76 percent. The proper rate would have been 15.17 percent. The only program the school can charge indirect costs to is Chapter 1 (CFDA #84.010). The school over-charged indirect costs because its rate was higher than it should have been. As a result, we question \$1,265 of costs claimed for federal reimbursement.

Findings and Recommendations

Recommendation #3

We recommend the school calculate its federal indirect cost rate in accordance with federal regulations.

Student Employment

The school has two programs in which it employs students. One is Work Experience Program (WEP) and the other is workstudy. The purpose of the WEP is to provide jobs for students and at the same time provide valuable work experience. The workstudy program consists of odd jobs which vary from custodial-type jobs to making beds. Currently the school pays the students from \$1.50 an hour for workstudy jobs to minimum wage for WEP jobs.

We asked the United States Department of Labor and Industry, Wage and Hour Bureau, whether or not the school is required to pay students minimum wage. Bureau personnel said the laws regarding minimum wage and students are gray; as a rule of thumb, if the school benefits from the work the students provide, then the school should pay minimum wage. School personnel stated a lot of the jobs students perform are more like household chores than jobs. In those cases they do not believe it is appropriate to pay minimum wage.

Since some of the jobs are custodial in nature, and may fall under the minimum wage requirements, it is important for the school to document clearly the differences between employment and other compensated activities (household chores). One way to do this is by establishing policies. The school should work with both the Montana and the United States Departments of Labor and Industry to ensure the policies they develop are within state and federal guidelines.

We also noted the school does not withhold taxes from the students' pay checks. Personnel stated they did not think they needed to because the students earn very little money.

Findings and Recommendations

According to Internal Revenue Service Circular E, students are subject to withholding requirements. We discussed this with personnel at Department of Administration, State Payroll, and they are researching this issue further. This would only apply to the students who are employees. The school should work with State Payroll to determine whether the school is subject to any past liabilities regarding tax withholdings on student payroll.

Recommendation #4

We recommend the school:

- A. Work with both the Montana and the United States Departments of Labor and Industry to develop policies regarding student employment.**
- B. Work with the Department of Administration, State Personnel Division, to ensure the school properly withholds taxes from student payroll.**

Student Accounts

The school is the custodian of cash accounts held on behalf of the students attending the school. The school receives money on behalf of the student, and disburses the money upon the student's request. The school maintains the students' money in an approved non-treasury bank account. It identifies individual student accounts on its student account system. During fiscal year 1993-94, bank records show deposits of approximately \$42,000 and withdrawals of approximately \$41,000. At June 30, 1994 the school was accountable for a balance of approximately \$9,000 of student money.

In our previous audit report we recommended the school develop a policy on abandoned student accounts which complies with state abandoned property laws. The school has not yet done anything with the \$85 reported in our previous report or developed a policy regarding abandoned property. We also recommended the school implement controls over cash to ensure

Findings and Recommendations

compliance with state law and accounting policy. The school has implemented controls over cash deposits, and has segregated duties. We identified additional areas where the school could improve controls over student accounts.

- The school has two cash boxes, one at the main office and one in the dormitory. State accounting policy requires an independent person perform a surprise cash count at least monthly. The school does not perform surprise counts. Personnel said they thought they were in compliance with the policy because someone else performs the cash count each week. Since this is on a routine basis, not on a surprise basis, it is not meeting the intent of the policy. Also, this is only being done for one cash box.
- State accounting policy states that money held in a custodial cash account by an agency is for the benefit of the individual or organization and is not to be used for the support of the agency. The school currently has a portion of students' cash accounts in the dormitory as a cash account. The school has been using it as a petty cash fund for the school. Personnel stated they usually only use the fund for emergency purchases. If the school intends to use the cash box in the dormitory for school expenditures, it should use state funds rather than student funds.
- State accounting policy requires all cash accounts be replenished with a state warrant only. The school replenishes its cash box with a contingent revolving fund check instead of a state warrant. Personnel stated they like having a clean cutoff when replenishing the box.
- The nature of fiduciary accounts indicates the school should distribute interest earnings on the bank balance to the individual student accounts. The school deposits the interest into a separate account within the student account system. This account had a balance of \$292 at June 30, 1994. This money should be distributed to the individual students. Personnel stated it is too time consuming to allocate the interest among the students. In our previous audit we brought this issue to the attention of school personnel, but they have not changed procedures.

State accounting policy is developed to increase the likelihood of first preventing, and second, detecting, misappropriated funds. The school should review state accounting policy to ensure the procedures it uses for student accounts comply with state policy.

Findings and Recommendations

Recommendation #5

We recommend the school:

- A. Implement a policy regarding abandoned student accounts which complies with state abandoned property laws.
- B. Ensure procedures used for student cash accounts comply with state accounting policy.

Accounting Issues

Section 17-1-102(5), MCA, requires state agencies to input to the state's accounting system, before the close of the fiscal year, all transactions necessary to show receipt and use of public money in accordance with generally accepted accounting principles (GAAP). We noted the following instances where the school did not record all accounting activity in accordance with GAAP.

Unrecorded Revenue and Expenditure Activity

State accounting policy allows the school to reduce expenditures when it collects money if the service provided was for the sole benefit of the payee, and not part of the operation of the school. In our previous audit report we discussed three instances where the school was inappropriately reducing expenditures. The school properly corrected the three instances listed in the previous report. During this audit, we identified two instances where the school should have recorded revenue rather than reducing expenditures. The instances are as follows:

- The school runs a work experience program (as discussed on page 7). In fiscal year 1992-93 the school did not have enough funds to cover the full cost of this program, so the Montana School for the Deaf and Blind Foundation gave the school \$5,000 to pay for the students' wages. The school inappropriately reduced its expenditures by this amount rather than recording revenue.

Findings and Recommendations

- The school participates in the captioned films program (as discussed on page 4). The school inappropriately reduced postage charges by this reimbursement.

We determined General Fund expenditures and revenues were understated by \$6,565 and \$1,162 in fiscal years 1992-93 and 1993-94, respectively, as result of these instances. The school inappropriately increased its spending authority by reducing expenditures rather than recording revenues. School personnel stated they thought it was appropriate to reduce expenditures in these situations. However, as discussed above, state accounting policy does not allow expenditure abatements for moneys received in support of ongoing school operations. Since both of these programs are part of ongoing school operations, the school should record the collections as revenue.

Recommendation #6

We recommend the school use expenditure abatements in accordance with state accounting policy.

Property Management

State accounting policy requires agencies to perform an inventory of fixed assets once a year or once every two years depending on the type of inventory system the agency uses. Since the school updates its inventory records every time a fixed asset is purchased or disposed of, it only has to perform an inventory once every two years. State policy further states the inventory records must be accurate by June 30 of each fiscal year.

We noted several items on the inventory system that no longer exist. Personnel stated when they tried to remove the items from the inventory system, the document rejected and they did not have time to correct and resubmit it. We also noted the school had not completed an inventory of fixed assets during the last two fiscal years. Personnel stated they started it, but were not able to complete it due to lack of resources.

Findings and Recommendations

We determined the inventory records are overstated by \$54,208 which is approximately 7 percent of equipment inventory. The school should perform inventories to ensure compliance with state accounting policy. School management should review workloads and determine who is best able to complete inventory on a timely basis.

Recommendation #7

We recommend the school:

- A. Perform fixed asset inventories as required by state policy.**
- B. Update the accounting records to accurately reflect fixed assets owned.**

Food Service

The school provides meals for students attending school and living in the dormitory. The school spends approximately \$155,000 a year on the food service operation. Starting in fiscal year 1993-94, the state purchasing bureau delegated the purchase of food to individual agencies. The school prepares a purchase order for estimated food needs, and follows required bidding practices.

The Montana State Prison produces milk and provides the milk to state agencies and other nonprofit organizations at 10 percent below the current minimum milk prices established by the Milk Control Board. The prison delivers milk to the Great Falls area and may be able to include the school on its delivery list. Since other state agencies purchase products at reduced cost from the prison, we believe the school may be able to reduce its food service costs by accessing these products.

The school management was not aware that the school could obtain milk through the prison. Personnel expressed concerns over storage, the frequency of delivery, and the types of milk

Findings and Recommendations

products available. Based on our discussions with prison personnel, we believe the prison may be able to address these concerns.

Recommendation #8

We recommend the school work with the Montana State Prison to determine the feasibility of the prison providing milk to the school.

Independent Auditor's Report & Agency Financial Schedules

STATE OF MONTANA

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LEGAL COUNSEL:
JOHN W. NORTHEY

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

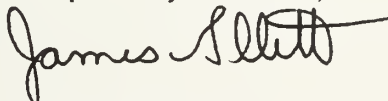
We have audited the accompanying financial schedules of the Montana School for the Deaf and Blind for each of the two fiscal years ended June 30, 1993 and 1994, as shown on pages A-5 through A-12. The information contained in these financial schedules is the responsibility of the school's management. Our responsibility is to express an opinion on those financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial schedules are prepared on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the school's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana School for the Deaf and Blind for the two years ended June 30, 1993 and 1994, in conformity with the basis of accounting described in note 1.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

July 29, 1994

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Expendable Trust Funds</u>
FUND BALANCE: July 1, 1992	\$ <u>0</u>	\$ <u>47,263</u>	\$ <u>0</u>
ADDITIONS			
<u>Fiscal Year 1992-93:</u>			
Budgeted Revenue & Transfers In	61,812	334,346	
Prior Year Expenditure Adjustments	7,182		
Support From State of Montana	2,692,438		
Nonbudgeted Revenue & Transfers In			46,456
<u>Fiscal Year 1993-94:</u>			
Budgeted Revenue & Transfers In	53,727	353,761	
Prior Year Expenditure Adjustments	28,195		
Support From State of Montana	2,451,996		
Nonbudgeted Revenue & Transfers In			47,032
Total Additions	<u>5,295,350</u>	<u>688,107</u>	<u>93,488</u>
REDUCTIONS			
<u>Fiscal Year 1992-93:</u>			
Budgeted Expenditures & Transfers Out	2,761,432	342,736	
Prior Year Expenditure Adjustments		1,386	
Nonbudgeted Expenditures & Transfers Out			46,456
<u>Fiscal Year 1993-94:</u>			
Budgeted Expenditures & Transfers Out	2,533,918	349,972	
Prior Year Revenue Adjustments		312	
Nonbudgeted Expenditures & Transfers Out			47,032
Total Reductions	<u>5,295,350</u>	<u>694,406</u>	<u>93,488</u>
FUND BALANCE: June 30, 1994	\$ <u>0</u>	\$ <u>40,964</u>	\$ <u>0</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-10.

SCHOOL FOR THE DEAF & BLIND
 SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
 FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994

	Charges For Services	Sale of Documents, Merchandise	Rentals, Leases & Royalties	Miscellaneous	Federal Indirect Cost Recoveries	Other Financing Sources	Federal	Total
<u>Fiscal Year 1992-93</u>								
GENERAL FUND								
Estimated Revenue	\$ 0	\$2,450	\$ 2,880	\$ 3,200				\$ 8,530
Actual Revenue	<u>12,926</u>	<u>3,423</u>	<u>2,880</u>	<u>42,583</u> ¹				<u>61,812</u>
Collections Over (Under) Estimate	<u>\$ 12,926</u>	<u>\$ 973</u>	<u>\$ 0</u>	<u>\$ 39,383</u>				<u>\$ 53,282</u>
SPECIAL REVENUE FUND								
Estimated Revenue					\$ 9,000	\$190,000	\$ 89,900	\$ 288,900
Actual Revenue					<u>14,377</u>	<u>217,526</u>	<u>102,443</u>	<u>334,346</u>
Collections Over (Under) Estimate					<u>\$ 5,377</u>	<u>\$ 27,526</u>	<u>\$ 12,543</u>	<u>\$ 45,446</u>
<u>Fiscal Year 1993-94</u>								
GENERAL FUND								
Estimated Revenue	\$ 72,546	\$2,450		\$ 73,000				\$ 147,996
Actual Revenue	<u>49,209</u>	<u>3,886</u>		<u>632</u>				<u>53,727</u>
Collections Over (Under) Estimate	<u>\$(23,337)</u>	<u>\$1,436</u>		<u>\$(72,368)</u>				<u>\$(94,269)</u>
SPECIAL REVENUE FUND								
Estimated Revenue	\$ 64,000		\$10,000		\$ 6,700	\$200,000	\$127,343	\$ 408,043
Actual Revenue	<u>36,825</u> ¹		<u>4,076</u>		<u>6,609</u>	<u>202,478</u>	<u>103,775</u>	<u>353,763</u>
Collections Over (Under) Estimate	<u>\$(27,175)</u>		<u>\$(5,924)</u>		<u>\$ (91)</u>	<u>\$ 2,478</u>	<u>\$(23,568)</u>	<u>\$(54,280)</u>

¹ See note 7 on page A-12.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-10.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES
BY OBJECT & FUND - BUDGET & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1994

	<u>Administration</u>	<u>General Services</u>	<u>Student Services</u>	<u>Education</u>	<u>Total</u>
PERSONAL SERVICES					
Salaries	\$ 44,897	\$ 1,717	\$183,585	\$ 891,056	\$1,121,255
Hourly Wages	62,509	68,359	324,639	287,016	742,523
Other Compensation	6,450				6,450
Employee Benefits	27,316	39,470	175,768	332,732	575,286
Total	<u>141,172</u>	<u>109,546</u>	<u>683,992</u>	<u>1,510,804</u>	<u>2,445,514</u>
OPERATING EXPENSES					
Other Services	5,622	25,669	5,142	9,454	45,887
Supplies & Materials	2,889	15,606	44,594	47,765	110,854
Communications	9,457	326	158	6,365	16,306
Travel	5,418		63,067	10,419	78,904
Rent	213	59		1,997	2,269
Utilities		80,843			80,843
Repair & Maintenance	936	27,934	3,327	6,290	38,487
Other Expenses	255	3,185	73	13,593	17,106
Total	<u>24,790</u>	<u>153,622</u>	<u>116,361</u>	<u>95,883</u>	<u>390,656</u>
EQUIPMENT AND INTANGIBLE ASSET					
Equipment	1,621	1,799	2,213	19,701	25,334
Total	<u>1,621</u>	<u>1,799</u>	<u>2,213</u>	<u>19,701</u>	<u>25,334</u>
CAPITAL OUTLAY					
Buildings		9,586			9,586
Total		<u>9,586</u>			<u>9,586</u>
TRANSFERS					
Transfers		4,900			4,900
Total		<u>4,900</u>			<u>4,900</u>
DEBT SERVICE					
Leases			7,900		7,900
Total			<u>7,900</u>		<u>7,900</u>
TOTAL PROGRAM EXPENDITURES	<u>\$167,583</u>	<u>\$ 279,453</u>	<u>\$810,466</u>	<u>\$1,626,388</u>	<u>\$2,883,890</u>
GENERAL FUND					
Budgeted	\$193,585	\$ 284,939	\$790,736	\$1,339,477	\$2,608,737
Actual	167,583	279,453	779,314	1,307,568	2,533,918
Unspent Budget Authority	<u>\$ 26,002</u>	<u>\$ 5,486</u>	<u>\$ 11,422</u>	<u>\$ 31,909</u>	<u>\$ 74,819</u>
SPECIAL REVENUE FUND					
Budgeted			\$ 34,000	\$ 575,122	\$ 609,122
Actual			31,152	318,820	349,972
Unspent Budget Authority			<u>\$ 2,848</u>	<u>\$ 256,302</u>	<u>\$ 259,150</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-10.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES
BY OBJECT & FUND - BUDGET & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1993

	<u>Administration</u>	<u>General Services</u>	<u>Student Services</u>	<u>Education</u>	<u>Total</u>
PERSONAL SERVICES					
Salaries	\$ 93,314	\$ 1,454	\$173,190	\$ 982,796	\$1,250,754
Hourly Wages	57,331	79,403	376,908	304,689	818,331
Employee Benefits	34,779	33,088	177,617	351,847	597,331
Total	<u>185,424</u>	<u>113,945</u>	<u>727,715</u>	<u>1,639,332</u>	<u>2,666,416</u>
OPERATING EXPENSES					
Other Services	27,037	14,630	5,351	11,051	58,069
Supplies & Materials	1,546	14,969	50,384	42,273	109,172
Communications	20,574	262	190	3,811	24,837
Travel	3,149		46,274	18,216	67,639
Rent		1,259	60	2,459	3,778
Utilities		88,532			88,532
Repair & Maintenance	824	30,659	1,805	7,142	40,430
Other Expenses	1,687	719	21	20,200	22,627
Total	<u>54,817</u>	<u>151,030</u>	<u>104,085</u>	<u>105,152</u>	<u>415,084</u>
EQUIPMENT AND INTANGIBLE ASSET					
Equipment	100	399	480	2,168	3,147
Total	<u>100</u>	<u>399</u>	<u>480</u>	<u>2,168</u>	<u>3,147</u>
CAPITAL OUTLAY					
Buildings		11,621			11,621
Total		<u>11,621</u>			<u>11,621</u>
DEBT SERVICE					
Leases			7,900		7,900
Total			<u>7,900</u>		<u>7,900</u>
TOTAL PROGRAM EXPENDITURES	<u>\$240,341</u>	<u>\$ 276,995</u>	<u>\$840,180</u>	<u>\$1,746,652</u>	<u>\$3,104,168</u>
GENERAL FUND					
Budgeted	\$240,411	\$ 277,048	\$811,026	\$1,433,284	\$2,761,769
Actual	<u>240,341</u>	<u>276,995</u>	<u>811,008</u>	<u>1,433,088</u>	<u>2,761,432</u>
Unspent Budget Authority	<u>\$ 70</u>	<u>\$ 53</u>	<u>\$ 18</u>	<u>\$ 196</u>	<u>\$ 337</u>
SPECIAL REVENUE FUND					
Budgeted			\$ 34,247	\$ 357,116	\$ 391,363
Actual			29,172	313,564	342,736
Unspent Budget Authority			<u>\$ 5,075</u>	<u>\$ 43,552</u>	<u>\$ 48,627</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-10.

MONTANA SCHOOL FOR THE DEAF AND BLIND
SCHEDULE OF ADDITIONS AND DEDUCTIONS TO AGENCY FUND
PROPERTY HELD IN TRUST
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994

PROPERTY HELD IN TRUST BALANCE, JULY 1, 1992			\$ <u>7,523</u>
ADDITIONS			
Receipts Fiscal Year 1992-93	\$39,691		
Receipts Fiscal Year 1993-94	<u>41,749</u>		
Total Additions			81,440
DEDUCTIONS			
Disbursements Fiscal Year 1992-93	39,312		
Disbursements Fiscal Year 1993-94	<u>40,607</u>		
Total Deductions			<u>79,919</u>
PROPERTY HELD IN TRUST BALANCE, JUNE 30, 1994			\$ <u><u>9,044</u></u>

The school accounts for students' moneys in its Agency Fund. Daily activity is recorded on a subsidiary system and periodic adjustments are made to the Statewide Budgeting and Accounting System. The schedule presented above was prepared from the school's subsidiary system because daily receipts and disbursements are not recorded on the primary accounting records (SBAS). Additional information is provided in the notes to the financial schedules beginning on page A-10.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1994

Summary of Significant Accounting Policies

Basis of Accounting

The Montana School for the Deaf and Blind uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental, Expendable Trust and Agency Funds. In applying the modified accrual basis, the school records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the school incurs the related liability and it is measurable.

State accounting policy also requires the school to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures may include: entire budgeted service contracts even though the school received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The school uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. School Special Revenue Funds include School Trust

Notes to the Financial Schedules

Interest/Income, U.S. Department of Education programs and U.S. Department of Agriculture programs.

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. The school has an Agency Fund to account for student moneys and a Expendable Trust Fund to account for donations.

2. Annual and Sick Leave

Noncontract employees at the school accumulate both annual and sick leave. The school pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the accompanying financial schedules. The school absorbs expenditures for termination pay in its annual operational costs. At June 30, 1993 and at June 30, 1994, the school had a liability of \$164,766 and \$187,776, respectively.

3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System and the Teachers' Retirement System. The school's contribution to the retirement systems was \$153,682 in fiscal year 1992-93 and \$149,642 in fiscal year 1993-94.

4. General Fund Balance

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

5. Foundation

The Montana School for the Deaf and Blind Foundation, Inc. was formed in October 1983, pursuant to section 20-8-111, MCA. The foundation performs duties for the school under a contract with the Board of Public Education. It files reports with the Board of Public Education demonstrating contract fulfillment. The Board of Public Education appoints the directors of the foundation. At least one member of the foundation board of directors is a member of the Board of Public Education.

Notes to the Financial Schedules

The superintendent of the school is the executive director of the foundation.

The foundation is to receive, hold, manage, use and dispose of real and personal property given to the school or the Board of Public Education on behalf of the school, by purchase, gift, devise, bequest or otherwise acquired. The proceeds, interest and income thereof are to be used for the benefit of the Montana School for the Deaf and Blind. It is not the intent of the foundation that its gifts to the school be used to supplant taxpayer funds. The foundation activity is not reflected on the accompanying financial schedules. The foundation expended approximately \$165,000 each year in support of the school during fiscal years 1992-93 and 1993-94.

Litigation

Litigation is pending between the school and 12 employees. These employees are requesting back pay under an opinion from the Attorney General that teachers at the school are entitled to leave benefits available to other employees of the state.

The court ruled against the state and determined the plaintiffs are entitled to \$456,527. The state appealed the district court's decision on September 30, 1994.

Tuition

The school started collecting tuition for out-of-state students in fiscal year 1992-93. In fiscal year 1992-93 this revenue was classified in the General Fund as miscellaneous revenue. In fiscal year 1993-94 this revenue was classified in the Special Revenue Fund as charges for services revenue.

Agency Response

SCHOOL FOR THE DEAF AND THE BLIND

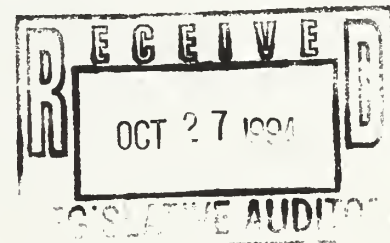


STATE OF MONTANA

3911 CENTRAL AVENUE
GREAT FALLS, MT 59405-1697

Administration: (406) 771-6000
Education: (406) 771-6030
FAX: (406) 771-6164
TDD: (406) 771-6063

October 26, 1994



Scott A. Seacat
Legislative Auditor
P.O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

Presented below is the school's response to the eight (8) audit recommendations contained in the financial compliance audit for the two fiscal years ended June 30, 1994.

RECOMMENDATION #1: "(A) We recommend the school comply with contract requirements for the captioned film program or terminate the contract; and (B) Request reimbursement for captioned film program expenditures to the fullest extent possible."

RESPONSE: Concur (A) and (B) -- The school is in compliance except for submitting invoices in a timely manner. The school does not bill for the months of June, July and August as there is no activity in these months to bill for. The school will make every effort to submit invoices at the end of each month for the months of September through May.

RECOMMENDATION #2: "We recommend the school enhance controls over the meal counts to ensure completeness and accuracy of federal reports."

RESPONSE: Concur -- The school modified the form for calculating the number of meals served which will enable a more accurate count and a

separate staff member is double checking the number of meals served.

RECOMMENDATION #3: "We recommend the school calculate its federal indirect cost rate in accordance with federal regulations."

RESPONSE: Concur -- The school will submit to OPI an amended indirect cost rate for fiscal years 1995 and 1996.

RECOMMENDATION #4: "We recommend the school: (A) Work with both the Montana and United States Departments of Labor and Industry to develop policies regarding student employment", and (B) Work with the Department of Administration, State Personnel Division to ensure the school properly withholds taxes from payroll."

RESPONSE: (A) Concur; and (B) Concur -- The school is currently discussing this issue with the State Payroll Division and a final determination has not been made.

RECOMMENDATION #5: "We recommend the school: (A) Implement a policy regarding abandoned student accounts which complies with state abandoned property laws" and "(B) Ensure procedures used for student accounts comply with state accounting policy."

RESPONSE: (A) Concur; and (B) Concur -- the only area the school has concern is the requirement for reimbursing the cash box with a state warrant. Currently the school uses a contingent revolving account check to reimburse the cashbox which, pursuant to bank policy, has to be made out to cash or petty cash. The bank will not allow a check to be cashed, if it is made out to the school. It is a concern to the school to have a check mailed from Helena that is made out to cash. We will work with the Department of Administration to see if the school can be exempted from this requirement.

RECOMMENDATION #6: "We recommend the school use expenditure abatements in accordance with state accounting policy."

RESPONSE: Concur

RECOMMENDATION #7: "We recommend the school: (A) Perform fixed

asset inventories as required by state policy" and "(B) Update the accounting records to accurately reflect fixed assets owned."


RESPONSE: (A) Concur; (B) Concur

RECOMMENDATION #8: "We recommend the school work with the Montana State Prison to determine the feasibility of the prison providing milk to the school."

RESPONSE: Concur

Please express our appreciation to your staff for the assistance they provided during the audit. You may call me or Bill Sykes at 771-6000, if you have any questions.

Sincerely,



JOHN KINNA
SUPERINTENDENT

